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Required Report - public distribution

**Date:** 4/1/2014

**GAIN Report Number:** TR4010

## Turkey

### Cotton and Products Annual

### 2014 Turkey Cotton and Products Annual Report

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**Report Highlights:**

Turkish cotton area and production are projected to rebound after two years of decline to 420,000 hectares and 630,000 metric tons (MT) (2.9 million bales) in market year (MY) 2014. High returns during the 2013 season, increased irrigation area in the GAP region and an increase in production support will all have a positive impact on cotton planting. Domestic consumption is expected to continue to increase, yet, moderately in MY 2014 to 1.4 million metric tons (MMT) (6.4 Million bales). The U.S. continued to be one of the leading suppliers of cotton to the Turkish market. Imports during the first five months of MY 2013 were 102,000 MT (0.47 million bales).

**Executive Summary:**

Turkish cotton area and production are projected to recover after two years of decline in MY 2014 reaching 420,000 hectares and 630,000 MT (2.8 million bales). Domestic cotton production and area were 330,000 hectares and 500,000 MT (2.2 million bales) in MY 2013. Post adjusted MY 2013 upward due to reports of higher yields from the Aegean region.

Good returns in MY 2013, due to low domestic production, attracted farmers to plant cotton. Additionally, following two years of declining production, the government of Turkey (GOT) announced unofficially that the seed cotton production bonus will be raised ten percent to 550 Turkish Lira (TL) (US\$244) per ton for the MY 2014 crop. The GOT, trying to improve cotton planting via incentives, has increased the production bonus for cotton two years in a row - each time by ten percent. However, despite the recent increases, the dollar value that farmers receive will be less than last year due to a drop in the Lira's exchange value. When announced MY 2013, the bonus was 500 TL per kilogram which was equivalent to US\$277 at that day's exchange rate.

Overall, yields have been improving in recent years because farmers who continue planting cotton are the most efficient, and have modern equipment and larger fields. Increased utilization of certified seeds, estimated to be about 95 percent of total seeds, have also helped to increase yields. Mechanical harvesting is reported to have increased field and ginning yields as well.

In general high production costs and competition from other crops are having an adverse effect on cotton production; the only initiative that will increase cotton production in Turkey is the progress of the Southeastern Anatolian Project (GAP) project. The GOT announced an initiative in 2008 to allocate about US\$12 billion over five years to speed up the GAP project and finalize the construction of dams, irrigation channels and other infrastructure in the Southeast Anatolian region, bringing irrigation to an additional 780,000 hectares of land by 2016. Accordingly, about 30,000 hectares of land will receive irrigation water in the GAP region this summer. Cotton planting will increase significantly following the finalization of the new phase of the project.

Over the years the strength of the Turkish Lira against the major foreign currencies has facilitated imports of low cost fabric and garments and hurt domestic production. The GOT, in an effort to support local production, announced on March 25, 2011 a price investigation on imports of fabric and garments and issued a temporary countervailing duty. Accordingly, imports of fabric and garments were subject to 20 percent and 30 percent import tax respectively, beginning July 2011 and implemented for three years. The new regulation and the extension have met with great enthusiasm among the Turkish garment producers who had to shut down operations due to lower cost imports from Asian countries. But beginning in 2012, the GOT that was influenced by the favorable world trade environment, decided to lift the yarn import protection tax, but keeping the fabric import protection tax. As a result, Turkey's low cost yarn imports went up 27 percent in 2013.

Turkish companies have been trying to hold on to their markets, domestically and internationally, by emphasizing their advantage in shipping times and focusing on fashion, design and innovations in technical textiles.

The textile and garment industries are crucial to Turkey's economy, accounting for 8 percent of its GDP, 16 percent of its total industrial production and about 10 percent of its manufacturing jobs. Generally, Turkey is the second largest apparel and textiles supplier to the EU after China, is the eighth largest textile exporter in the world, and the fifth largest apparel exporter. Increased domestic consumption and cost of production in leading competitors such as China and India have made Turkish products more competitive in export markets.

Total Turkish textile and apparel exports amounted to US\$25.8 billion in 2013, up about 8 percent from US\$23.8 in 2012. The increase in exports was due to an easing of economic difficulties in the EU market and Turkish exports diversification affords for new markets. As a result the EU's share in Turkish exports went down to 74 percent in 2013 from 80 percent in 2012. The EU has been the leading market for Turkish textile and garment exporters since buyers wanted to work with low stocks - hence they preferred Turkey's geographical proximity, short response time, and quality.

The United States continued to be the leading cotton supplier to the Turkish market, supplying 57 percent during MY 2012. Even though U.S. market share was only 27 percent during the first five months of the MY 2013, it is expected go up to 60 percent at the end of the marketing year. Total cotton imports from the U.S. in MY 2013 are expected to reach 550,000 MT (2.5 million bales).

Turkey's cotton exports were about 20,000 MT (92,000 bales) during the first five months of MY 2013. China (25,000) and Macedonia (200 MT) were the leading foreign destinations for Turkish cotton. About 1,750 MT of cotton were also exported to the Mersin Free Trade Zone with the possibility of being re-imported later in the year. Turkey also exported about 15,000 MT (7,000 bales) of hydrophilic cotton for medical use during the same period, which added to exports in the PSD.

## **Commodities:**

Cotton

## **Production:**

MY 2014 cotton planting area is projected to rebound about 27 percent to 420,000 hectares following two years of decline. Cotton production in MY 2014 is expected to go up to 630,000 MT (2.9 million bales). Higher returns during 2013, an increase in production bonus- even though not officially announced yet, recent high world cotton prices, and an increase in irrigation in the GAP region will all contribute to increased production. Recent heavy rains are also expected to contribute to soil moisture and yields in all regions.

<b>Region</b>	<b>Area (ha.)</b>	<b>Production (MT)</b>
<b>Aegean</b>	85	130
<b>Cukurova</b>	70	100
<b>GAP</b>	260	400
<b>Total</b>	420	630

During MY 2013 local cotton prices moved along with world prices. Local Standard 1 Aegean cotton was US\$2.23 per kilogram in September 2013. It declined to US\$1.9 per kilogram in late December 2013. Local cotton is presently quoted for US\$2.07 per kilogram.

Although precipitation was low all around the country in the winter, recent rains in March have helped to improve moisture levels in all cotton growing regions. Accordingly, the GAP and Aegean regions will have adequate irrigation water. In the Cukurova region, however, farmers are concerned with the availability of water and opted to plant cotton, since it requires less water than corn. Regardless the availability of irrigation water, higher input prices such as seed, fertilizer, fuel and electricity are always concerns for cotton farmers.

Turkey used to be the world leader in organic cotton production, but increasing global production has reduced margins, and domestic production has declined in recent years. MY 2013 organic production is estimated at 10,000 MT compared to 30,000 MT in MY 2006. But field preparations indicate that production will go up to 14,000 MT in MY 2014. Turkish producers have also taken steps to be part of the Better Cotton Initiative (BCI) and produced about 15,000 MT of BCI cotton in 2013, and expect to produce about 30,000 MT in MY 2014.

Although cotton planting will begin in the very near future, the GOT has not yet officially announced the production bonus for commodities, including cotton, under the program for MY 2014. Unofficial press releases indicate that the cotton bonus will be increased about ten percent to 0.55 TL per kilogram. Farmer leaders argue that such an increase will be insufficient to convince farmers to plant cotton, and that the bonus this year should be 0.60 TL per kilogram due to the increased cost of production. They argue that a higher bonus would result in higher planting.

Yields are improving because farmers that continue to plant cotton are the most efficient, experienced, well equipped, and have larger fields. The GOT is also increasing its efforts to combine small and divided farms. Therefore, better planting techniques and economies of scale are helping them to achieve higher yields. Increases in the use of certified seeds over the years have also helped to increase yields. The increase in certified seed use is driven by a 10 percent higher production bonus for certified seed users. It is now calculated that 95 percent of the seeds used for cotton planting are certified seeds.

Harran is the heart of the cotton growing area in the GAP region, where 140,000 hectares are under irrigation. An estimated 15,000 hectares of land have been affected by salt accumulation caused by poor irrigation practices. However, drainage channels have been built to prevent the harm to cotton fields caused by rising underground water levels due to excessive irrigation. The GOT also provides technical and financial assistant to farmers to build modern drip irrigation systems to prevent ecological problems and the waste of water resources.

Pests, including budworm and bollworm, are a problem for cotton producers, particularly in the Aegean and Cukurova regions. Therefore, the government ban on aerial pesticide spraying in May 2006 harmed producers in the region. According to growers, there is no other cost-effective way to control infestations in traditional varieties. Turkey does not permit planting of genetically engineered “Bt” insect-protected cotton.

### **Consumption:**

During MY 2013 domestic cotton consumption was estimated to reach 1.37 MMT (6.3 million bales). In spite of the slowing European economies, Turkish yarn and garment producing companies managed to increase their market share in Europe and increased sales to new markets. During MY 2014, projected recovery in the world economy is expected to support local demand for cotton, raising consumption to 1.4 MMT (6.4 million bales).

Turkish mills that benefited from the high demand of recent years are continuing to invest in new machinery and increasing their capacity. It is estimated that about 1.0 million new spindles were added in 2013 and an additional 0.5 million will be added in 2014. Turkey ranks among the top five countries in the world in terms of yarn production capacity. The new investments will help the industry recover from capacity lost during 2008 economic crises, lower production costs, and improve economies of scale.

The textile industry continues to be one of the most important sectors for the Turkish economy, accounting for 8 percent of GNP, 16 percent of industrial employment and 17 percent of total exports. Investments by the Turkish textile industry since 1985 are estimated at about US\$90 billion. When the new investment is finalized, Turkey's production capacity is estimated to reach 7 million spindles and 650,000 rotors. Turkish textile exporters have the advantage of faster order response times and higher quality than their competitors.

According to the Exporter's Union data, ready-to-wear items and textiles exports in 2013 were about 8 percent higher than in 2012, US\$17.4 billion and US\$8.4 billion respectively. Overall, the share of textiles and products in total exports were 17 percent.

The European Union continued to be the leading market for Turkish ready wear and textile exports in 2013, constituting 74 percent and 45 percent of exports respectively. Total exports of textiles and garments to the United States were about the same as last year, US\$750 million.

Domestic cotton is mainly sold directly to mills and the remainder is traded on a spot basis at the exchange in Izmir. The Izmir exchange also trades some cotton from other regions and countries. There are smaller spot markets in Adana and in the Southeast.

The GOT in an effort to make Istanbul a new regional financial center has moved the admiration of the Izmir's futures market (VOB) last summer to Istanbul and made part of Istanbul Stock Exchange. The futures market in Izmir was in operation for a few years and had reached significant trading volumes for products other than cotton.

On the other hand Izmir Cotton Exchange formed a new company and built a large bonded storage facility where farmers can leave their cotton for future sales. The new facility will bring new opportunities to Turkish farmers in cotton marketing and ease early season price pressures.

#### **Trade:**

Cotton imports were 369,000 MT during the first five months of MY 2013 up about 36 percent compared to the same period last marketing year. Greece was the leading supplier with 125,000 MT (0.57 million bales) followed by the U.S. 102,000 MT (0.48 million bales) and Turkmenistan with 74,000 MT (0.34 million bales)

U.S. exports to Turkey are projected to pick up with increased demand during the second half of MY 2013. The U.S. registered 226,000 MT (1.2 million bales) of cotton for sale to Turkey during the first seven months of the marketing year.

Turkey also imported 121,000 MT of cotton yarn and 490 million M<sup>2</sup> of fabric in 2012. While imports of yarn were up about 27 percent, fabric imports were up about 16 percent. Turkey sourced its yarn and fabric imports from Central Asian countries, India and China.

Turkey's total cotton exports in MY 2012 (including hydrofoil cotton for medical use) reached 47,364 MT, of which 14,779 MT were lint cotton for textile use and the rest (32,605 MT) was hydrofoil cotton for medical use. About 4,000 MT of exports were to the Mersin Free Trade Zone that can be re-imported later. Indonesia (2,315 MT) and Bangladesh (1,280 MT) were the other leading export destinations.

Turkey's cotton exports were about 20,000 MT (92,000 bales) during the first five months of MY 2013. China (25,000 MT) and Macedonia (200 MT) were the leading foreign destinations for Turkish cotton. About 1,750 MT of cotton was also exported to the Mersin Free Trade Zone with a possibility of being re-imported later. Turkey also exported about 15,000 MT (7,000 bales) of hydrophilic cotton for medical use during the same period, which added to exports in the PSD.

Additionally, Turkey exported 128,000 MT of cotton yarn and 384 million M<sup>2</sup> of fabric in 2013. While exports of cotton yarn were up about 2 percent, fabric exports were up 17 percent. EU member countries continued to be the leading export markets for Turkish cotton yarn and fabric.

Turkey is expected to remain a net cotton importer for years to come due to the large textile industrial capacity, low domestic cotton production and the slow pace of the GAP development project.

Import Trade Matrix					
Turkey			Turkey		
Cotton	Metric Tons		Cotton	Bales	
Time Period	Aug/July	Aug/Jan	Time Period	Aug/July	Aug/Jan
	MY 2012	MY 2013		MY 2012	MY 2013
U.S.	456,663	101,924	U.S.	2,096,083	467,831

Greece	94,480	125,212
Turkmenistan	104,442	74,253
Syria	21,451	22,968
Tajikistan	30,668	13,919
Brazil	56,055	13,846
India	7,478	5,558
Uzbekistan	5,608	4,500
Tanzania	0	362
Egypt	3,972	315
Argentina	4,785	240
Azerbaijan	4,935	0
Total of Others	333,874	261,173
Others not listed	13,223	5,457
Grand Total	803,760	368,554

Greece	433,663	574,723
Turkmenistan	479,389	340,821
Syria	98,460	105,423
Tajikistan	140,766	63,888
Brazil	257,293	63,553
India	34,324	25,511
Uzbekistan	25,741	20,655
Tanzania	0	1,662
Egypt	18,231	1,446
Argentina	21,953	1,102
Azerbaijan	22,652	0
Total of Others	1,532,472	1,198,784

### Policy:

The GOT has spent more than US\$25 billion over the past three decades on a gigantic irrigation and agricultural extension project in Southeast Anatolia known as the GAP project. When finished, some 1.5 million hectares of land will be irrigated and a total of 22 dams will be completed. So far about 74 percent of the hydro-electric projects are completed, but only 22 percent of the irrigation projects. In 2008 the government promised to allocate US\$12 billion over five years for dams, irrigation and infrastructure in the region. During the last three years, the GOT dispersed allocated funds for the project to vitalize some of the irrigation projects. If realized, a total of 1.04 million hectares of land will be irrigated by 2016, which could eventually increase cotton planting and production in the region.

Most of Turkey's cotton is planted between mid-March and mid-May, and harvested from mid-August through November. The crop is grown in three main areas; the Aegean region, Cukurova and Southeastern Anatolia. Small amounts of cotton are also produced around Antalya.

The most popular varieties in the Aegean region are "Carmen" and "White Gold"; in Cukurova it is "Delta Pine-SG 125" and "BA 119"; and in the Southeast "Stone Mill ST 468" and "Diyarbakir Gold". Aegean cotton is considered the best quality and is preferred by textile producers. Aegean cotton is longer staple (1 5/32") than cotton from Cukurova (1 3/32") or the GAP (1 1/8") region, although the quality of the cotton has improved significantly in the GAP region due to improved seed quality.

The total number of harvesters in Turkey has increased rapidly, reaching approximately 1,020. The great majority, about 690, of them are new modern harvesters; about 230 are secondhand, and about 100 are old tractor-pulled harvesters. Presently about 90 percent of Aegean cotton is picked by harvester, and 70 percent of Cukurova and 40 percent of South East Anatolian (GAP) cotton. The demand for harvesters has increased in recent years since the high cost and scarcity of labor have caused cotton picking delays and losses.

All of Turkey's estimated 500 gins are privately owned. The majority of the gins in the Aegean region are roller gins, more suitable for longer staple cotton, while about half of the gins in Cukurova and the Southeast are roller gins and half are saw gins. However, the recent increase in machine harvesting has triggered construction of new saw gins. The agricultural co-ops Taris and Cukobirlik have invested in new saw gins to meet the needs of their members. Private groups have invested in saw gin projects in the GAP region as well.

The ginning rate averages about 41 percent in the Aegean region, about 39 percent in GAP and 38 percent in Cukurova. Ginners generally purchase seed cotton directly from growers. Lint is graded by the gin expert and certified using a green card system. The government introduced a project about five years ago to introduce a mechanized high volume instrument (HVI) testing system and has sent technicians to the United States for training at USDA's Memphis facilities. Accordingly, there were going to be HVI measurement centers in Izmir, Adana and Urfa, and Turkey will eventually move to the HVI testing system over the next five years. However, a lack of funds and interest has postponed the project.

**Production, Supply and Demand Data Statistics:**

Turkey Cotton (HECTARES)(MT)						
	2012	Revised	2013	Estimate	2014	Forecast
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]
Market Year Begin		Aug-12		13-Aug		14-Aug



<b>Area Planted</b>	410,000	410,000	330,000	330,000	0	420,000
<b>Area Harvested</b>	410,000	410,000	330,000	330,000	0	420,000
<b>Beginning Stocks</b>	193,618	193,618	180,014	180,014	0	180,014
<b>Production</b>	580,000	580,000	490,000	500,000	0	630,000
<b>Imports</b>	803,760	803,760	920,000	920,000	0	830,000
<b>MY Imp. from U.S.</b>	456,663	456,663	500,000	550,000	0	500,000
<b>TOTAL SUPPLY</b>	1,577,378	1,577,378	1,590,014	1,600,014	0	1,640,014
<b>Exports</b>	47,364	47,364	40,000	45,000	0	45,000
<b>USE Dom. Consumption</b>	1,350,000	1,350,000	1,375,000	1,375,000	0	1,400,000
<b>Loss Dom. Consumption</b>	0	0	0	0	0	0
<b>TOTAL Dom. Consumption</b>	1,340,000	1,340,000	1,375,000	1,375,000	0	1,400,000
<b>Ending Stocks</b>	180,014	180,014	175,014	180,014	0	195,014
<b>TOTAL DISTRIBUTION</b>	1,577,378	1,577,378	1,590,014	1,600,014	0	1,640,014

**PSD Bales (1000 bales)**

<b>Cotton Turkey</b>	<b>2012/2013</b>		<b>2013/2014</b>		<b>2014/2015</b>	
	<b>Market Year Begin: Aug 2012</b>		<b>Market Year Begin: Aug 2013</b>		<b>Market Year Begin: Aug 2014</b>	
	<b>USDA Official</b>	<b>New Post</b>	<b>USDA Official</b>	<b>New Post</b>	<b>USDA Official</b>	<b>New Post</b>
Area Planted	0	410	0	330		420
Area Harvested	410	410	330	330		420
Beginning Stocks	1,241	888	1,315	821		823
Production	2,600	2,662	2,250	2,295		2,892

Imports	3,692	3,689	4,250	4,223		3,810
MY Imports from U.S.	0	2,096	0	2,525		2,295
Total Supply	7,533	7,239	7,815	7,339		7,525
Exports	218	218	175	206		206
Use	6,000	6,200	6,250	6,310		6,426
Loss	0	0	0	0		0
Total Dom. Cons.	6,000	6,200	6,250	6,310		6,426
Ending Stocks	1,315	821	1,390	823		893
Total Distribution	7,533	7,239	7,815	7,339		7,525
Stock to Use %	21	13	22	13		13
Yield	1,381.	1,414.	1,484.	1,514.		1,499.